

# bdht 2019 Statement of Compliance



## Regulator of Social Housing: Economic Standards

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### Key Regulatory Documents:

- Regulating the Standards: Regulator of Social Housing (RSH) April 2018 and March 2019
- Governance & Financial Viability Standard HCA April 2015
- Governance & Financial Viability Standard Code of Practice HCA April 2015
- Value for Money Standard RSH April 2018
- Value for Money Code of Practice RSH April 2018
- Value for Money Metrics Technical Note and Appendices RSH April 2018
- Rent Standard April HCA 2015
- Rent Standard Guidance HCA April 2015
- Guidance for Private Registered Providers on how to notify the regulator about the disposal of social housing dwellings HCA March 2017
- Decision Instrument Number 14 Direction about notification of disposals of social housing dwellings and of land other than a dwelling HCA 2017
- Direction of the social housing regulator about notifications of disposal of social housing dwellings and of land other than a dwelling HCA 2017
- Direction of the social housing regulator about notification of Registered Society restructuring, company arrangements and reconstruction, Registered Society dissolution and constitutional changes. HCA April 2017.
- Guidance for non-profit Private Registered Providers undergoing a restructure or amending their governing documents. HCA March 2017
- Explanatory note for making a formal application for an exemption to the rent reductions in the Welfare Reform and Work Act 2016.
- The Accounting direction for private registered providers of social housing from April 2015 and January 2019
- Welfare Reform & Work Act 2016
- The Social Housing Rents (Exemptions and Miscellaneous Provisions) Regulations 2017

### Reference Documents:

- CIH Briefing note: April 2016 Reduction in social housing rents
- NHF Understanding Assurance December 2014
- NHF Code of Governance February 2015
- NHF Code of Conduct October 2012
- NHF Briefing: Deregulation; Deregulatory measures introduced in response to the ONS reclassification of housing associations April 2016
- Sector Risk Profile RSH 2018
- Voluntary Right to Buy – Midlands Pilot Guidance for Housing Associations NHF May 2018

### Key to Text

**To help readers distinguish between RSH regulation and guidance and bdht commentary, HCA regulation is shown in black text whilst bdht commentary is shown in blue.**

## Key Sources of Assurance

2017/18	
External Auditor	Mazars 45 Church Street Birmingham B3 2RT
Internal Auditors	Beever & Struthers St. George's House 215-219 Chester Road Manchester M15 4JE
Treasury Management	David Tolson Partnership Ltd Richard House 9 Winkley Square Preston PR1 3HP
Legal Advisors	Trowers & Hamblins LLP 55 Princess Street Manchester M2 4EW
Business Plan Advisors	Altair Consultancy & Advisory Services Ltd, Tempus Wharf, 29a Bermondsey Wall West, London, SE16 4SA
Employment and Health and Safety Advisors	Citation Kings Court, Water Lane,

	Wilmslow, Cheshire, SK9 5AR
Disaster Recovery	Central Networks & Technologies Ltd Rowan House Sandbrook Way Rochdale OR11 1LQ
Cyber Security	The Arawak Group 64 Syon Park Gardens London TW7 5ND
Data Protection & the General Data Protection Regulations	The Arawak Group 64 Syon Park Gardens London TW7 5ND
Fire Risk	Fire Surveys First Floor 7A Market Street Crediton Devon EX17 2EE

Benchmarking Note – unless otherwise stated all benchmarks referenced in this report are based on Housemark Central LSVT (2,500 – 7,500 units) Club 2017/18.

## Executive Summary

### Introduction

Each year the Board of bdht publishes an assessment of compliance with regulatory standards. The Board has commissioned the Compliance Committee to undertake a detailed assessment of compliance against the Regulator of Social Housing (RSH) “economic standards” whilst the Tenant Panel and Performance & Review Committee will undertake the same role in respect of the RSH “consumer” standards. The Board will publish, within the annual accounts, a statement of compliance with the Governance and Financial Viability Standard based on

- a detailed assessment against that particular standard, and
- the overall assessment of compliance with all RSH standards.

The detailed assessments of compliance against both “economic” and “consumer” standards will be published on the bdht website and summarised within the Annual Report to Residents.

### Overview

In April 2015 the Homes & Communities Agency published revisions to the regulatory standards in particular the Governance & Financial Viability Standard and Rent Standard. Changes to the Governance & Financial Viability Standard and accompanying Code of Practice were targeted at:

- increasing the accountability of Boards,
- developing comprehensive, accessible and up to date asset and liability registers, and
- systematically stress testing Business Plans to destruction and developing mitigating plans in response.

These requirements were designed to minimise the risk of future business failures and in the event of any such failure simplify any business rescue. The Rent Standard provided the sector with a degree of financial certainty in an otherwise turbulent operating environment. This certainty was removed by the Welfare Reform and Work Act 2016 requiring registered providers of social housing in England to reduce rents by 1% a year for 4 years commencing 2016/17. The impact on registered providers such as

bdht is compounded by the on-going reductions in tenant income resulting from changes to benefit regulations and the on-going roll-out of Universal Credit.

Bdht has responded robustly to the challenges set by both the Regulator and Government by holding to our core values and focusing on business priorities whilst reducing costs. Within a viable Business Plan the Board has committed to maintain the bdht development pipeline to help meet local housing need and has re-affirmed its ambition for the organisation to achieve 95% customer satisfaction. bdht is not retreating from its commitment to service excellence and maintains compliance with the revised regulatory standards.

**Based upon the detailed assessment below the Compliance Committee confirms that bdht is compliant with the RSH economic standards.**

## Governance & Financial Viability Standard & Code of Practice

In response to the operating environment and revisions to the Governance and Financial Viability Standard, during 2015/16, the Board led in the:

- compilation of five registers setting out, clearly and comprehensively, bdht assets and liabilities, and
- development of a robust framework for stress testing the Business Plan.

bdht has built on these foundations, updating Registers and stress testing the Business Plan annually in accordance with the “perfect storm scenario approved by Board” (as set out in Section 10 of the 2019 Business Plan) together with a Mitigation Action Plan (Appendix D to the Business Plan).

The bdht Board has a long established risk management and internal control framework in place. The Board has set, and reviews as part of the annual business planning process (Section 4 of the 2019 Business Plan), the bdht risk appetite with a clear understanding of risk tolerances acceptable to bdht. The risk appetite is incorporated into the risk aligned Strategic Balanced Scorecard reported monthly to members of the Board.

Registered Providers must be transparent and open with the Regulator including reporting breaches of RSH standards. Failure to do so can be viewed by the Regulator as a failure of governance.



As part of a review of health and safety reporting requested by Board, to include all strands of landlord health and safety within assurance reporting systems, a potential breach of the Home Standard was identified. This related to 861 domestic properties and 17 communal areas having had no electrical safety certification within a 5 year cycle. This potential breach was reported to the Regulator on the 11th April 2019 and given full consideration by Board at a specially convened meeting on the 17<sup>th</sup> April 2019.

The Regulator made a determination based on the self-referral made by bdht on the 2<sup>nd</sup> May 2019 and concluded that ***“it would not be proportionate to find a breach of our Home Standard in this case; accordingly no further regulatory action will be taken on this occasion”***, on the basis that bdht has *“a good understanding of how the overdue testing arose, and a good level of control over the situation. You have called in external help from NICEIC to carry out a health check review of current procedures and processes, and the board are intending to review wider health and safety compliance. You have kept your board and the regulator informed.”*

In determining compliance with the Governance & Financial Viability Standard the Board must also consider bdht compliance with all RSH standards.

## Value for Money Standard April 2018 & Code of Practice

In April 2018 the Regulator of Social Housing published a revised Value for Money Standard together with a Code of Practice and technical note. The revised Standard, Code of Practice and technical note introduced a range of metrics by which the regulator evaluates RP's performance in delivering VfM, rather than via detailed annual self-assessments previously required by the Regulator of each RP.

The Compliance Committee reviewed in detail the requirements of the revised VfM Standard (in February 2018), with Board subsequently approving the revised VfM reporting arrangements and VfM metrics in March 2018.

Compliance with this Standard commenced from April 2018, including compliance in VfM reporting for the financial year 2017/18.

A revised Value for Money Strategy, taking in regulatory revisions, was approved by Board in July 2018 following detailed scrutiny by Compliance Committee in June 2018.

In September 2018 the RSH published a report (with quartile benchmarks) summarising performance of RPs against each VfM metric for the year 2017/18. Bdht's performance against these benchmarks was reported to Board in December 2018, this report demonstrated excellent performance in comparison with other providers, with 7 out of 9 metrics showing better than average performance, and best quartile performance in 3 metrics.

## Rent Standard

bdht has maintained compliance with the rent standard except where the standard has been superseded by the Welfare Reform & Work Act 2016 and accompanying regulations.

A detailed assessment of compliance with RSH "economic" Standards is set out below.

### **Compliance Committee June 2019**

# RSH “Economic” Standards

- **Governance & Financial Viability Standard**
  - **Code of Practice**
- **Value for Money Standard**
  - **Code of Practice**
  - **Rent Standard**

## The Regulator of Social Housing Economic Standards

The regulatory framework for social housing in England is made up of:

- regulatory requirements – what registered providers need to comply with
- codes of practice – a code of practice can amplify any economic standard to assist registered providers in understanding how compliance might be achieved
- regulatory guidance – this provides further explanatory information on the regulatory requirements and includes how the regulator will carry out its role of regulating the requirements.

The RSH regulatory standards for social housing in England are at the core of RSH regulatory requirements. Each standard sets out required outcomes and specific expectations of registered providers.

The role of the RSH is to proactively regulate the 3 standards which are classified as ‘economic’. These are

- the Governance and Financial Viability Standard
- the Value for Money Standard
- the Rent Standard.

The Compliance Committee has been delegated to undertake an annual assessment of compliance against these “economic” standards.

The remaining 4 standards are classified by the RSH as ‘consumer’ where the role of the RSH is reactive in response to referrals or other information received. The RSH will only intervene where failure to meet the standards has caused or could have caused serious harm to tenants. The consumer standards are

- the Tenant Involvement and Empowerment Standard
- the Home Standard
- the Tenancy Standard
- the Neighbourhood and Community Standard.

bdht compliance with these “consumer” standards is assessed each year by the Tenant Panel reporting via the Performance and Review Committee to Board.

Standard	Governance and Financial Viability Standard
<b>Required Outcomes: 1.1 Governance</b>	
<p><b>Registered providers shall ensure effective governance arrangements that deliver their aims, objectives and intended outcomes for tenants and potential tenants in an effective, transparent and accountable manner. Governance arrangements shall ensure registered providers:</b></p> <ul style="list-style-type: none"> <li>• <b>adhere to all relevant law</b></li> <li>• <b>comply with their governing documents and all regulatory requirements</b></li> <li>• <b>are accountable to tenants, the regulator and relevant stakeholders</b></li> <li>• <b>safeguard taxpayers’ interests and the reputation of the sector</b></li> <li>• <b>have an effective risk management and internal controls assurance framework</b></li> <li>• <b>protect social housing assets.</b></li> </ul>	
<b>Code of Practice Paragraph 1.1</b>	
6	The required outcome for governance ensures the delivery of a registered provider’s objectives, including being responsible holders and stewards of social housing assets. The regulator considers the reference to compliance with ‘all relevant law’ in the first bullet point encompasses legislation (including secondary legislation), and common law. In ensuring compliance registered providers should have regard to relevant statutory guidance. To meet the required outcome on adherence to all relevant law boards should take reasonable measures to assure themselves of their compliance.
7	The fourth bullet point concerns reputation. Reputation is key in maintaining confidence in the sector. The social housing sector has benefited from being part of a regulated sector with low lending rates combined with the availability of public investment. Registered providers should ensure that they manage their businesses and their risks in such a way that they do not negatively impact on the reputation of the sector.
<b>Bdht Compliance Position: Compliant</b>	
<p>Annual Assessment of Compliance with RSH Economic Standards Version 1.0 June 2019 Compliance Committee</p>	

**Adhere to all relevant law** – the Board take reasonable measures to assure themselves of compliance including:-

- appointment of non-executive directors based on specific expertise identified as required by the Board;
- appointment of an appropriately qualified, experienced and effective management team;
- the external auditor provides assurance of compliance with company legislation;
- an internal audit programme agreed and reviewed by the Compliance Committee;
- risk map highlighting potential impact on changes in legislation, case law etc;
- regular review of policies to ensure compliance with current legislation.

bdht also

- employ the services of Citation to provide legal updates and advice on Employment and Health & Safety Law;
- on-line access to Chartered Institute of Housing best practice;
- obtain Planning updates from Tetlow King planning consultants;
- has access to legal updates from Shelter and Lime Legal;
- employ Capsticks solicitors to provide legal advice in regard to Anti-Social Behaviour and breach of tenancy;
- commission Gas Safe and NICEIC to provide independent assurance in regard to compliance with gas and electrical safety regulations.

In addition bdht also subscribe to and receive 6 monthly legal updates from Anthony Collins solicitors summarising current relevant and material legal issues. These updates are reported to EMT and Compliance Committee.

**Comply with their governing documents and all regulatory requirements** – the Board gain assurance of compliance with governance arrangements through an annual review of governance undertaken by the Compliance Committee with recommendations to Board and an annual review of compliance with regulatory standards undertaken by the Compliance Committee (“economic” standards) and the Tenant Panel on behalf of the Performance & Review Committee (“consumer” standards) each reporting to Board for final approval.

During 2018 the Board approved revised Articles of Association to remove the Council’s golden share which was no longer relevant following the devolution of delegations from the Regulator.

**Are accountable to tenants, the regulator and relevant stakeholders** – bdht are accountable to:-

- Tenants – directly through the work of the Tenant Panel who report to the PRC and if necessary directly to the Board.

- The Regulator – through timely submission of data and information, and self-reporting of any potential breaches of RSH Standards (potential breaches of Home Standard reported in both 2018 and 2019);
- Relevant stakeholders – these are principally local authorities, bdht remains accountable to these stakeholders through partnership working in district/county/regional partnerships.

#### Self-Referral to Regulator April 2019:

As part of a review of health and safety reporting requested by Board, to include all strands of landlord health and safety within assurance reporting systems, a potential breach of the Home Standard was identified. This related to 861 domestic properties and 17 communal areas having had no electrical safety certification within a 5 year cycle. This potential breach was reported to the Regulator on the 1<sup>st</sup> April 2019 and given full consideration by Board at a specially convened meeting on the 17<sup>th</sup> April 2019.

The Regulator made a determination based on the self-referral made by bdht on the 2<sup>nd</sup> May 2019 and concluded that ***“it would not be proportionate to find a breach of our Home Standard in this case; accordingly no further regulatory action will be taken on this occasion”***, on the basis that bdht has *“a good understanding of how the overdue testing arose, and a good level of control over the situation. You have called in external help from NICEIC to carry out a health check review of current procedures and processes, and the board are intending to review wider health and safety compliance. You have kept your board and the regulator informed.”*

#### **Safeguard taxpayers’ interests and the reputation of the sector – bdht achieve these aims through:-**

- A rigorous approach to achieving value for money as set out in an annual value for money statement meeting regulatory requirements;
- Robust arrangements for internal and external audit;
- Adherence to a strong set of organisational values and operating Principles;
- Adoption and compliance with best practice in governance (NHF Code of Governance & Code of Conduct)

**Have an effective risk management and internal controls assurance framework** – To protect the bdht business the Board has an approved “risk appetite” for each business category. The risk appetite is regularly reviewed, including annually as part of the business planning process. Business decisions must be taken in compliance with the agreed risk appetite.

bdht has a comprehensive risk register which is reviewed annually by the Compliance Committee. On a quarterly basis the Compliance Committee review high level and emerging risks. On a monthly basis all Board members receive a Business Assurance Report, this incorporates the Strategic Balanced Scorecard setting out performance against key indicators aligned to high level business risks.

At the Board Strategic Event in November 2016 the Board with independent advice from Lee Cartwright (Mazars) developed the bdht strategic risk appetite with a clear understanding of risk tolerances acceptable to bdht. This is reviewed annually by Board in March each year as part of the Business Planning review.

**Protect social housing assets** – bdht has a robust Business Plan, subjected to detailed stress testing and reviewed annually resulting in a financially viable business, generating surpluses and thus protecting and developing social housing assets.

During 2015 bdht Board established a robust approach to stress testing the Business Plan (subjected to independent validation undertaken by Beever & Struthers) with a “perfect storm” approved by Board in March 2016. The “perfect storm” is reviewed annually and used to test the Business Plan each year and inform the accompanying Mitigation Action Plan.

### Section 1.1 Recommendations for Improvement

1.1	None identified
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<b>Required Outcomes: 1.2 Financial Viability</b>	
<b>Registered providers shall manage their resources effectively to ensure their viability is maintained while ensuring that social housing assets are not put at undue risk.</b>	
<b>Code of Practice Paragraph 1.2</b>	
8	<p>Registered providers should take all such steps as are reasonably necessary to ensure that any activities they undertake do not place social housing assets, activities relating to the provision of social housing or their own financial viability at undue risk. The regulator recognises that registered providers should have the flexibility to consider risks in light of their individual circumstances. Boards of registered providers have the responsibility to satisfy themselves and provide assurance to the regulator that:</p> <ul style="list-style-type: none"> <li>• they have considered the requirement appropriately in relation to their own external and internal operating environment</li> <li>• they are satisfied they will comply with regulatory requirements now and in the foreseeable future</li> </ul>
9	<p>Examples of what the regulator considers to be unacceptable outcomes resulting from social housing assets being put at undue risk are outlined below. These examples are not intended to be exhaustive but rather to give context to registered providers in considering the risks within their business:</p> <ul style="list-style-type: none"> <li>• loss of social housing assets and/or tenants losing their home or the benefits of being within a regulated sector due to lenders or others enforcing their security or insolvency</li> <li>• loss of social housing assets where the sale of those assets is the result of poor business planning and decisions or where the reason for the sale is to make good an unplanned cash shortfall</li> </ul>
10	<p>The regulator recognises every business decision will carry risk and sometimes those risks will crystallise. There is, however, a difference between managed risk and uncontrolled loss. The regulator expects boards to manage the business to promote the former and avoid the latter. In addition, the regulator does not intend that all social housing assets should remain in the sector for ever. However, the value in the assets should not be lost to the sector. Under the Value for Money Standard, registered providers are expected to consider how to make best use of their assets.</p>
<b>Bdht Compliance Position – Compliant</b>	

bdht manage resources effectively as evidenced through the annual Viability Report of the Regulator and financial performance.

The RSH Viability Report is an independent regulatory assessment of bdht's viability and long term sustainability and tests the ability of bdht to deliver objectives set out in the Business Plan and RSH requirements. In November 2018, the Regulator, in their last published assessment of bdht, awarded their best possible V1 rating, as it has done in all previous years since stock transfer.

During 2018/19 bdht financial performance was strong, in a difficult operating environment, generating:

- an operating surplus (actual surplus as a percentage of budget surplus) of 134%;
- an operating margin (operating surplus as a percentage of turnover) of 35%;
- loan debt per unit of £17,457 against a loan covenant requirement of a maximum debt per unit of £24,000;
- loan interest cover of 3.30 times compared to a loan covenant requirement of 1.1 times.

bdht employ specialist financial consultants to provide advice on loan management and to ensure actions are prudent.

Assumptions included within the Business Plan are based upon advice taken from specialist business planning consultants.

Internal and external audit provide control assurance to Board with detailed scrutiny delegated to the Compliance Committee. Additionally the Compliance Committee review on an annual basis the Board's Standing Orders and Financial Regulations.

### **Risk**

Based on a clear understanding of risk tolerances acceptable to bdht the Board has established the strategic risk appetite for bdht. Against 14 risk classes (encompassing the whole spectrum of bdht business) the risk appetite sets out how open or closed bdht is to risk.

The annual Business Plan review includes Risk Sensitivity testing and on-going risk management which is monitored by the Compliance Committee, reporting outcomes to Board quarterly.

### **Risk Identification**

All reports to Board, Committee or EMT requiring approval include the identification of potential risks and strategies to mitigate any such risks. Risks are recorded in the bdht Risk Register. This is subject to annual review by the Compliance Committee. The

Compliance Committee monitor high level risks and are updated with emerging risks on a quarterly basis. From 2019/20 the full Risk Register shall be subject to quarterly review.

### **Sale of Social Housing Assets**

Bdht will currently sell social housing assets under three scenarios:

- Homes subject to the Right to Acquire;
- Homes subject to the Preserved Right to Buy;
- Voluntary sales in accordance with a Homes England Development contract, and
- Voluntary sales in respect of providing development subsidy.

During 2018/19 bdht sold 11 properties, (10 under the Preserved Right to Buy and 1 market sale) generating net income of £878,138.

In September 2015 the bdht Board approved participation in the Voluntary Right to Buy scheme (VRTB) as proposed by the National Housing Federation. In preparation for implementation of the VRTB scheme the Board, in October 2016, considered criteria by which specific properties would be excluded from sale as allowed within scheme rules. All proceeds from these and existing sales mechanisms are fed back into the delivery of new social/affordable housing. During 2018/19 three bdht qualified under the VRTB scheme, these applications are proceeding but no sales completed during the financial year.

As set out in last year's Regulatory Compliance Improvement Plan the Housing and Planning Act 2016 introduced extensive deregulatory measures taking power away from the Regulator and placing responsibility solely with the Boards of registered providers. It is important that Board/board members are fully aware of their responsibilities resulting from de-regulation. A report was presented to Board in May 2017 setting out in detail the changes introduced and responsibilities of the Board/board members.

### **Section 1.2 Recommendations for Improvement**

In April 2019 the bdht approach to risk management was subject to internal audit. Substantial assurance was provided to Board from the audit but implementation of a number of recommendations will strengthen compliance, these include:

- Provide further definition to areas of impact within the Risk management Framework;

- Review RMF to ensure consistency of roles and responsibilities with Board/Committee Terms of Reference;
- Quarterly review of the full risk register by the Senior Management Group;
- Increased focus on the level of control assurance provided by each of the five lines of defence for each identified risk, and
- Commission internal audit to provide an advisory audit into improving data integrity.

## 2 Specific expectations applicable to all registered providers

**2.1 Registered providers shall adopt and comply with an appropriate code of governance. Governance arrangements should establish and maintain clear roles, responsibilities and accountabilities for their board, chair and chief executive and ensure appropriate probity arrangements are in place. Areas of non-compliance with their chosen code of governance should be explained. Registered providers should assess the effectiveness of their governance arrangements at least once a year.**

### Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.1

12	Registered providers should demonstrate their actions are consistent with both the principles and relevant provisions of their code of governance and overall contribute to sound governance
13	The regulator anticipates that an assessment of the effectiveness of governance arrangements may vary in terms of depth and scope in line with the internal and external environment within which the registered provider operates. Some parts of a governance review may be carried out to a different timescale than an annual review where this helps ensure the quality and effectiveness of the review. Where this is the case, the annual assessment of the effectiveness of governance arrangements should give assurance on the timescale and progress of work on these areas.

### Bdht Compliance Position - Compliant

Bdht have adopted the NHF Code of Governance (updated 2015) and NHF Code of Conduct (2012 Edition) and accompanying model code for individual Board members, staff members and involved residents, "Conduct Becoming".

The Compliance Committee undertake a detailed assessment of compliance with both Codes on an annual basis (the last completed reviews for each are: Code of Conduct November 2018 and Code of Governance April 2019). The Committee report

the compliance position, together with any areas of non-compliance and recommendations to Board for approval. Compliance Committee reported compliance with both Codes.	
<b>2.2</b>	<b>Registered providers shall ensure that they manage their affairs with an appropriate degree of skill, independence, diligence, effectiveness, prudence and foresight.</b>
<b>Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.2</b>	
14	Paragraph 2.2 of the Standard complements the board's responsibilities to act lawfully and responsibly. Compliance will include both behavioural aspects, such as ensuring that the board and executive foster a culture of constructive challenge and debate, and good governance practices.
15	To ensure that registered providers have the requisite skills and capability to perform their functions, the regulator would expect them to: <ul style="list-style-type: none"> <li>• have an appropriate skills strategy to address the needs of the business</li> <li>• regularly assess whether boards and management have the right competencies, experience, and technical knowledge appropriate to the size, scale and risk profile of the organisation</li> <li>• ensure that all material decisions are made with appropriate internal/external expertise or advice and should satisfy themselves of the impartiality of any support or advice</li> <li>• have plans to address any skills gaps identified (including through bringing in external skills), and such plans should be monitored to ensure that they are followed through.</li> </ul>
16	In order to determine the appropriate level of independence, registered providers should have regard to their adopted code of governance, relevant legal requirements, e.g. charity law and to their business model. In some businesses, influence is inherent in the corporate structure of the registered provider (for example a profit making registered provider which is a subsidiary of a group). In other cases, influence may not be inherent in the corporate structure but result from close associations the registered provider has with other organisations or individuals.
17	In managing their affairs with an appropriate degree of independence, board members should exercise independence of judgement and act at all times in the best interests of the registered provider. There should also be appropriate mechanisms in place to manage any conflicts of interest to demonstrate probity and value for money.
18	Registered providers should not be subject to undue influence from third parties that could reasonably be expected to lead to non-compliance with regulatory standards.
<b>Bdht Compliance Position - Compliant</b>	

Board agendas have been designed to promote strategic debate between the Board and the Executive from strategy formulation to completion.

Following a review in 2018 of the Articles of association the bdht Board now comprises 9 Members, with all members sharing the same designation, the review ended the previous split between independent members and resident members.

In September 2018 the PRC reviewed the bdht Skills Statement setting out the required skills and experience needed by the Board, based on the size and complexity of the organisation, risks and business aspirations. A skills audit is undertaken annually (with triennial external review) to identify any gaps in skills/experience. This informs the board succession and recruitment strategy to ensure Board retain a mix of essential skills.

Governance effectiveness was independently reviewed during 2018 by Patricia McCabe (Central Consultancy). The outcome of the review was Level 1 accreditation against the Governance Assessment Process meaning bdht governance arrangements comply with all legal and regulatory requirements, but provides opportunity for further improvement.

bdht comply with the NHF Code of Governance, Articles of Association and charity law.

Board members demonstrate independence of judgement whilst acting in the best interests of bdht. These requirements are set out within the Code of Governance and Code of Conduct adopted by bdht with specific mechanisms in place to report and record conflicts of interest.

During 2018 all Board Members completed a Disclosure of Interest Form to identify any potential relationships with third parties. No issues of concern arose from this.

The bdht Articles of Association and Board composition ensure that the board are not subject to undue influence from third parties.

<b>2.3</b>	<b>Registered providers shall communicate in a timely manner with the regulator on material issues that relate to non-compliance or potential non-compliance with the standards.</b>
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**Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.3**

19	The regulator requires registered providers to tell it at the earliest opportunity about any material issues that indicate there has been or may be a breach of the standards. This might include, for example, material frauds, liquidity issues, breaches of lenders covenants or failures of governance. This transparency is a fundamental pillar of the co-regulatory approach.
20	In deciding what is material, registered providers should be mindful of the regulator's role in the consumer standards. The regulator may only intervene where there has been a breach of the standard which has, or may cause, serious detriment. In relation to the consumer standards registered providers are only obliged to disclose those matters which have or may relate to such a breach.
<b>Bdht Compliance Position - Compliant</b>	
bdht is committed to transparent and timely communication with the regulator. As part of a review of health and safety reporting requested by Board, to include all strands of landlord health and safety within assurance reporting systems, a potential breach of the Home Standard was identified. This related to 861 domestic properties and 17 communal areas having had no electrical safety certification within a 5 year cycle. This potential breach was reported to the Regulator together with details of the agreed action plan to mitigate against any potential repetition.	
2.4	<b>Registered providers shall ensure that they have an appropriate, robust and prudent business planning, risk and control framework.</b>
2.4.1	<b>The framework shall ensure:</b>  <ul style="list-style-type: none"> <li>a) there is access to sufficient liquidity at all times</li> <li>b) financial forecasts are based on appropriate and reasonable assumptions</li> <li>c) effective systems are in place to monitor and accurately report delivery of the registered provider's plans</li> <li>d) the financial and other implications of risks to the delivery of plans are considered</li> <li>e) registered providers monitor, report on and comply with their funders' covenants.</li> </ul>
2.4.2	<b>The framework shall be approved by the registered provider's board and its effectiveness in achieving the required outcomes shall be reviewed at least once a year.</b>
<b>Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.4</b>	
21	Registered providers need to ensure their business planning, risk management and control framework is effective. It should cover all areas of the registered provider's business. This should demonstrate the registered provider fully

	understands and has considered its operating environment, so it can deliver its business plan and organisational objectives. It does not need to be captured in a single document.
22	Registered providers should have a clear understanding of their risk tolerances and ensure that they are appropriate to the scale and nature of the activities they are undertaking and their role as a registered provider. Registered providers should be able to identify the capital at risk from any investment activities, and ensure that investment is priced at such a level with a rate of return which is commensurate to the level of risk presented. Where a registered provider is a charity they should consider this alongside their objects and duties under charity law. Registered providers should consider the potential aggregated impact of risks, as well as their impact at an individual level.
23	Registered providers should ensure that they have access to sufficient committed and available liquidity at all times. They should understand the timing of cash flows and any conditions for a drawdown so they can manage cash flow risk. This means registered providers should understand the receipts and outgoings of the business, for example, rental income, investment in existing stock, the costs of development, receipts from sales and other business, financing costs (loan capital and interest payments) and build sufficient prudence into their plans to cope with changes. In particular, boards should assure themselves that they put funding lines in place in sufficient time to cope with major cash outflows. Boards should ensure that they effectively identify and manage any risks of re-financing whether planned or in reaction to changes in the operating environment.
24	Registered providers should also look at the relationship between operational and capital cash flows. Non-discretionary expenses, including all major repairs (whether capitalised or not) and interest costs, should be met from operating income. When using capital income (for example, receipts from disposals) to meet operating expenses, boards should ensure there is a plan that ensures operating cash flows fully cover operating expenses in the future. While this is not the case, registered providers need a plan to ensure that exposures are managed.
25	Registered providers need to build their business on robust and prudent assumptions. Registered providers should assure themselves the assumptions used are reasonable. For example these may be based on: <ul style="list-style-type: none"> <li>• past performance</li> <li>• market conditions</li> <li>• deliverability and forecasts of possible future conditions</li> </ul>
26	The regulator expects these assumptions will be kept under review and updated in the light of changing circumstances. It is important that registered providers ensure their plan enables them to meet lenders' covenants. Registered providers need to ensure sufficient headroom to allow them to take remedial action if assumptions within the plan significantly change or (potentially) if they are not delivering against the plan.



27	The regulator expects registered providers to identify the impact of significant business decisions (for example, major changes in development appetite, a new major scheme, moving into a new business stream or taking on new sources of funding) on viability (including continued covenant compliance). It also expects registered providers to report these to the board and take remedial action where necessary. Registered providers should think about their covenants in the broadest sense (financial and non-financial), set target measures of financial performance which provide headroom over covenants, and ensure they monitor all covenants.
28	The boards of registered providers should also be aware of the risks posed where separate companies are in effect controlled by others (through common or shadow directorships) and liabilities may be attributed to the registered provider putting social housing assets at risk. These risks should also be identified and mitigated.

### **Bdht Compliance Position: Compliant**

The Business Plan is reviewed annually by the Board. External consultants (MRC Surveying) are employed to ensure the reliability of stock data used to make Business Plan assumptions.

bdht employ specialist financial consultants to provide advice on loan management and to ensure actions are prudent.

### **Effective controls**

In order to ensure that the business is pursuing the right objectives, the Board undertake an annual review of the operating environment, including an assessment of significant risks facing the business at “Strategic Away-Days”. The outcomes from these reviews are fed into the Business Planning and Budget setting processes to ensure detail actions set out within the Corporate Plan are fully funded.

### **Monitoring Delivery of Plans**

The Corporate Plan is reviewed annually by Board, reported monthly in summary and by exception to all Board members, and scrutinised in detail, quarterly, by the Performance and Review Committee.

### **Financial Plans**

Quarterly financial reports are presented to the Board and the Executive Management Team receive a monthly exception report to allow timely corrective action to be put in place as necessary.

### **Financial Golden Rules**

The Board has in place a suite of rules designed to monitor funding covenants and financial strength of the business (see section 3 of the Business Plan) and these are included in the Strategic Balanced Scorecard.

### Liquidity

The Accountancy Team prepares an annual Cash Flow Statement which is updated weekly and reported to the Director of Finance and ICT. As recommended by Treasury Consultants and set out in the Treasury Strategy 2018 the Board introduced quarterly cash-flow projections for a rolling 24 month period to understand when bdht need to access further external funding. This is also stress tested by removing the benefit of sales receipts.

### Forecasts

All financial assumptions in the Business Plan are agreed with the lenders and professional advisors to ensure robustness.

### Risk

The annual Business Plan review includes an evaluation against the agreed Risk Appetite set by Board and Risk Sensitivity testing. On-going risk management is monitored by the Compliance Committee.

The Strategic Balanced Scorecard (SBS) of performance indicators is aligned directly to the High Level Risk Register. The SBS is distributed to all Board members monthly and considered in detail by the Compliance Committee.

The Business Plan is annually tested “to destruction” as part of the Business Planning process with a mitigation strategy developed in response to the identified “perfect storm”.

### Monitoring

Quarterly monitoring reports are provided to the funders to measure compliance with formal covenants.

<b>2.5</b>	<p><b>In addition to the above registered providers shall assess, manage and where appropriate address risks to ensure the long term viability of the registered provider, including ensuring that social housing assets are protected. Registered providers shall do so by:</b></p> <p style="padding-left: 40px;"><b>a) maintaining a thorough, accurate and up to date record of their assets and liabilities and particularly those liabilities that may have recourse to social housing assets</b></p>
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	<p><b>b) carrying out detailed and robust stress testing against identified risks and combinations of risks across a range of scenarios and putting appropriate mitigation strategies in place as a result.</b></p> <p><b>c) before taking on new liabilities, ensuring that they understand and manage the likely impact on current and future business and regulatory compliance.</b></p>
<b>Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.5</b>	
29	Boards are the custodians of social housing assets and the financial viability of the registered providers that hold those assets. The responsibility for managing risks, and specifically risks to social housing assets, lies with boards. As social housing is a long term asset, normally funded by long-term debt, it follows that boards need to maintain a long-term perspective on managing risk. They need to ensure that their decisions do not put short-term gains ahead of the long term sustainability of the business and the security of their social housing assets.
30 2.5a	The primary purpose of this requirement is to ensure that registered providers understand their housing assets and security position and have swift access to this information in decision making and risk management. Such information needs to be readily available in the event of a potential or actual failure of the registered provider. This will enable the regulator to draw up resolution strategies and aid a potential rescuer to value the social housing assets. The asset and liability register should contain sufficient information to enable a potential buyer to accurately price the value of the business and/or the value of the social housing assets in the event of distress.
31 2.5a	It is for registered providers to ensure such information is accurate and up-to-date. They should be able to produce an overview for the regulator at short notice. The records need to cover the breadth of the registered provider's activities (including activities carried out in subsidiaries, joint ventures and SPVs) and identify its assets and liabilities. The regulator does not prescribe the format of such records. The approach taken is likely to vary according to the size and complexity of the registered provider. The regulator expects that a registered provider's board will oversee the maintenance of these records and that they are readily reconcilable and regularly reconciled.
32 2.5a	Asset records should clearly identify social housing assets and where these assets are encumbered. Such records would normally include, but are not limited to, treasury arrangements, key contracts, title information and any restrictions on that title (for example planning obligations, charitable or other restrictions), valuations, stock condition and lender covenants.
33 2.5a	Registered providers should consider and record their liabilities in the widest context. The regulator considers the liabilities should include items which relate directly to the social housing assets and those which might have an impact on the business as a whole. This may include, but is not limited to: <ul style="list-style-type: none"> <li>• loans including borrowing from other group companies or related undertakings</li> </ul>

	<ul style="list-style-type: none"> <li>• guarantees, indemnities etc. including those provided to subsidiaries and SPVs, whether secured or unsecured</li> <li>• leases, sale/lease and leaseback transactions</li> <li>• mark-to-market exposures on derivative positions</li> <li>• cross default provisions (for example, a provision in a loan agreement which provides that a default on one loan agreement gives rise to a default on another one, including where these potentially cross between entities)</li> <li>• a duty or responsibility that obligates the entity to another, leaving it little or no discretion to avoid settlement<sup>4</sup></li> <li>• the potential for any impairment particularly in relation to investments in non-core activities</li> </ul>
34 2.5a	<p>Within group structures, boards should ensure they have full understanding of where liabilities exist between all entities (both registered and unregistered). This should include understanding of how a failure in one part of the group may affect other members of the group. Registered providers in a group should ensure they have an appropriate methodology to model and communicate the impacts of risks crystallising in one entity on other entities within the group, in particular where there would be recourse to social housing assets.</p>
35 2.5b	<p>The regulator expects registered providers, as part of their risk management approach, to stress test their plans against different scenarios across the whole group. The scenarios used will vary according to the size, type and structure of the organisation. Registered providers should go beyond simple sensitivity testing and include multi-variate analysis which tests against potential serious economic and business risks. Registered providers should explore those conditions which could lead to failure of the business, even if planned mitigations and controls are successfully implemented. They should assure themselves that the scenarios are consistent with what they consider to be acceptable levels of risk and their obligations. Stress testing should employ scenarios that are designed to assess resilience.</p>
36 2.5b	<p>In designing the stress testing, boards should consider both the long term, cyclical nature of economic factors that impact on the business as well as internal business risks.</p>
37 2.5b	<p>Two potential examples are offered by way of illustration:</p> <p>a) The board of a developing registered provider with a shared ownership and outright sale programme that is raising external debt will need to think about how key variables in the business plan would move during a housing market slowdown or crash. This would include, for example:</p> <ul style="list-style-type: none"> <li>• what is happening to sale prices and volumes</li> <li>• how lenders would be operating in that market</li> <li>• the potential for impairment</li> <li>• what might be happening to variable rate debt and the costs of working capital</li> </ul>

	<ul style="list-style-type: none"> <li>• other costs of holding the asset such as increased security costs and the movements in nominal and real inflation rates</li> </ul> <p>b) The board of an organisation with significant supported housing business, but little new development, will need to think about for example:</p> <ul style="list-style-type: none"> <li>• what might happen to corporate overheads and contract-specific costs if the registered provider lost key contracts</li> <li>• unsustainable price inflation or wage growth that removed margin from the business</li> </ul>
38 2.5b	<p>Managing and addressing risk should involve developing plausible scenarios that test the business plan against adverse movements in the operating environment. Doing so will help underpin boards' understanding of where the risks lie and inform their consideration and planning for remedial action if the risks crystallise either singly or in combinations.</p> <p>Registered providers should consider the implications of this stress testing for its existing business including how the business may need to respond, whether business streams may need to be altered or stopped, whether it has sufficient headroom, what controls they have in place and how those controls are implemented.</p>
39 2.5b	<p>As long-term businesses, registered providers need to ensure that they can withstand the long-term cycles in the economy and that short term decisions do not constrain their ability to cope with risk. This does not prevent registered providers from taking on measured risk to deliver their objectives. It means that when taking on risks, boards should fully understand the impact on their business in the round, as well as on their social housing assets. Boards should have appropriate mitigations and controls in place as well as a strategy to protect those assets during the long term.</p>

### **Bdht Compliance Position - Compliant**

#### **2.5a Asset & Liability Registers**

Bdht has adopted a multi-register approach to managing and maintaining information relating to assets and liabilities. The five Registers of assets and liabilities are:

- The Register of Property Assets
- The Register of Development Contracts
- The Register of Major Commercial Contracts
- The Register of Employment Contracts
- The Register of Loans and Other major Liabilities.

The Compliance Committee commissioned an independent review of these arrangements by Beever & Struthers during January 2016 with recommendations for development of the approach agreed by the Compliance Committee in February 2016. Beever & Struthers completed a further assurance review of these arrangements in April 2016. Beever & Struthers have provided assurance to the Compliance Committee & Board that bdht is compliant with the Regulatory Standard and Code of Practice in regard to this section.

### 2.5b Stress Testing

The Board led Short-Life Working Group developed a stress testing framework, defining the “perfect storm” of events which could break the Business Plan and a mitigation strategy all of which were approved by Board on the 7<sup>th</sup> March 2016. Stress testing is repeated annually as part of the development of the Business Plan with an updated “Perfect Storm” .

The bdht approach to stress testing has been independently reviewed by Beever & Struthers, in April 2016 and again in September 2019, providing substantial assurance and confirmation of compliance with the regulatory standard and code of practice.

### 2.5c New Liabilities

As part of the approval process in taking on any new liabilities the Board require that all risks are identified and the impact/probability of that risk on the business is fully understood.

<b>2.6</b>	<b>Registered providers shall ensure that any arrangements they enter into do not inappropriately advance the interests of third parties, or are arrangements which the regulator could reasonably assume were for such purposes.</b>
<b>Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.6</b>	
40	Registered providers should act in good faith appropriately advancing their own interests and those of their tenants. The focus here is on transactions which, for example, over-price services received so the contractor receives an inflated price or, where services are given without a suitable charge being levied.
41	For the avoidance of doubt, the regulator does not intend that transactions undertaken to promote charitable or social objectives, nor appropriate dividend payments by profit making registered providers will be caught by this expectation.

42	Where there are conflicts or perceived conflicts of interest, registered providers should clearly set out how they effectively manage these. They should ensure that, for example, parent companies, other entities or individuals who have control or influence (or whom the regulator reasonably believes has such control or influence) cannot or do not exert influence which would have a damaging effect on the registered provider or its compliance with standards. This could be, for example, charging unfavourable prices for the provision of services.
43	Third parties are any person or body which is not the registered provider. This includes, for example, directors and board members and may also include individuals or organisations that have close links to the registered provider.
<b>Bdht Compliance Position - Compliant</b>	
Bdht has robust arrangements (within the Articles of Association, Standing Orders and adopted Code of Governance) to ensure organisational independence and declaration of and recording of interests.	
2.7	<b>Registered providers shall communicate with the regulator in an accurate and timely manner. This includes returns to the regulator, including an annual report on any losses from fraudulent activity, in a form determined by the regulator.</b>
<b>Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.7</b>	
44	The regulator requires registered providers to communicate with them in an accurate and timely manner. This includes provision of information, for example data returns. The regulator will clearly articulate its requirements for regulatory returns to the sector and, where appropriate, will consult on these. It is the responsibility of registered providers to ensure that they submit required data returns in a timely manner and the information provided is of a good quality. This includes for example ensuring that returns such as the Financial Forecast Return are fully complete with no missing information, that the data is accurate and submitted by the deadline required. It is not the regulator's role to correct or fill in incorrect or missing data and we will view such returns as evidence of a weak control environment.
<b>Bdht Compliance Position - Compliant</b>	
bdht complete RSH returns within stated timeframes and to the required standard.	
2.8	<b>Registered providers shall assess their compliance with the Governance and Financial Viability Standard at least once a year. Registered providers' boards shall certify in their annual accounts their compliance with this Governance and Financial Viability Standard.</b>
<b>Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.8</b>	

45	In addition to assuring themselves of compliance with standards on a yearly basis, boards need to assure themselves of their continuing compliance when taking on significant new risks. This could be, for example, when undertaking a new development or entering a major contract. Registered providers' boards shall certify their compliance in the narrative report which accompanies their financial statements. When certifying compliance with the Standard, registered providers shall ensure that they consider compliance with regulatory standards in the round as set out in the required outcomes of the Standard.
<b>Bdht Compliance Position - Compliant</b>	
A detailed assessment of compliance with the “economic” standards was undertaken by the Compliance Committee in June 2018 and, in respect of “consumer” standards, by the Performance & Review Committee (incorporating an assessment undertaken by the Tenant Panel) in June 2018. Based upon these detailed assessments the Board of bdht certified compliance with the Governance & Financial Viability standard (taking into account the overall compliance position with all the regulatory standards) in July 2018. This certification was published within the 2017/18 annual accounts. This process will be repeated for 2018/19 with Board certification published within the 2018/19 annual accounts.	
<b>Section 2.1 to 2.8 Recommendations for Improvement</b>	
2.2 Full implementation of the Governance Improvement Plan	



<b>3. Specific expectations applicable to specific categories of registered provider</b>	
<b>Registered group parents</b>	
<b>3.1</b>	<b>Registered providers which are parent companies shall, as appropriate, support or assist those of their subsidiaries that are registered providers with a view of ensuring compliance with regulatory requirements.</b>
Not applicable, bdht is not currently part of a group structure.	
<b>Registered providers with unregistered parents</b>	
<b>3.2</b>	<b>Registered providers with parent companies who are not registered providers shall ensure that they do not enter into agreements to support the activity of the parent or another group member that may have a material negative impact on the social housing assets of the registered provider.</b>
Not applicable.	
<b>3.3</b>	<p><b>To enable compliance with the regulator’s standards or other regulatory requirements, registered providers with parent companies that are not registered providers shall have in place effective mechanisms to ensure that:</b></p> <ul style="list-style-type: none"> <li>• <b>such parent companies will give any appropriate support or assistance as necessary to the registered provider</b></li> <li>• <b>such registered providers have the ability to require the support or assistance of the parent company concerned</b></li> <li>• <b>the registered provider’s ability to meet the regulator’s standards and other regulatory requirements is not and cannot be prejudiced by the activities or influence of the parent company or another part of the group.</b></li> </ul>
Not applicable.	
<b>Profit making registered providers</b>	
<b>3.4</b>	<b>Profit making registered providers shall ensure that they undertake their social housing activities in an entity which is legally and operationally separated from any other activities they may undertake, except as set out below.</b>
<b>3.5</b>	<p><b>Profit making registered providers should ensure that activities they undertake which do not relate to the provision of social housing:</b></p> <p style="padding-left: 40px;"><b>a) form only a very small part of the activities they undertake</b></p>
Annual Assessment of Compliance with RSH Economic Standards Version 1.0 June 2019 Compliance Committee	

	<b>b) are not such as to mean that registered providers place social housing assets, activities relating to the provision of social housing or their own financial viability at undue risk.</b>
Not applicable	

Standard	Value for Money Standard 2018
<b>Required Outcomes</b>	
<p>1.1 Registered providers must:</p> <ol style="list-style-type: none"> <li>a. clearly articulate their strategic objectives</li> <li>b. have an approach agreed by their board to achieving value for money in meeting these objectives and demonstrate their delivery of value for money to stakeholders</li> <li>c. through their strategic objectives, articulate their strategy for delivering homes that meet a range of needs</li> <li>d. ensure that optimal benefit is derived from resources and assets and optimise economy, efficiency and effectiveness in the delivery of their strategic objectives.</li> </ol>	
<b>Code of Practice</b>	
<ol style="list-style-type: none"> <li>5. Registered providers must ensure that clear, up-to-date strategic objectives are in place. These objectives must: <ul style="list-style-type: none"> <li>• deal with the medium to long-term future of the organisation</li> <li>• include measurable targets based on outcomes, and</li> <li>• be demonstrably linked to the aims and purpose of the organisation.</li> </ul> </li> <li>6. In articulating their strategic objectives, registered providers may choose to embed value for money within those objectives, or may alternatively have a standalone value for money strategy. Whichever approach is taken, a comprehensive approach to value for money needs to be embedded throughout the business including at the level of individual business streams.</li> <li>7. Providers' objectives must articulate their strategy for delivering homes that meet a range of needs. This might, for example, include their plans for new development to meet unmet housing need in particular localities, or investment in the existing stock to sustain its quality and/or better meet the needs of particular client groups.</li> <li>8. Achieving value for money should include achieving economy, efficiency and effectiveness in all areas of activity, taking into account the outputs achieved as well as input costs. Economy, efficiency and effectiveness are defined as follows: <ul style="list-style-type: none"> <li>• Economy: minimising the cost of resources used while having regard to quality</li> </ul> </li> </ol>	

- Efficiency: the relationship between the output from goods or services and the resources to produce them
  - Effectiveness: the extent to which objectives are achieved and the relationship between intended and actual impacts.
9. Registered providers must ensure that they achieve optimum economy, efficiency and effectiveness in delivery of their strategic objectives recognising the need to balance factors such as available resources, risks and other duties that the provider must comply with (such as health and safety requirements) to ensure long-term financial viability.
  10. In terms of deriving “optimal benefit” from resources and assets, registered providers should take a measured and proportionate approach, taking into account the requirements of all the standards, in particular the Governance and Financial Viability Standard.
  11. Further detail on expectations for delivering optimal benefit can be found in paragraph 15 of the Code.
  12. Registered providers must ensure that they have sought to optimise the financial return from their assets and activities in so far as that is consistent with achievement of the organisation’s wider organisational purpose and strategic objectives. Social housing businesses will generally receive a lower-than-market return on social housing assets as renting properties below the market rate is an integral part of their social purpose. They also may at times opt not to receive maximum return from an asset, instead taking the decision to accept a lower return in furtherance of their social objectives. However, where a provider has had to accept lower financial returns in pursuit of their purpose, the rationale for this should be clearly articulated and justified.
  13. Registered providers must also be able to demonstrate that they have a full understanding of the return they generate from their assets compared to the costs of maintaining those assets. Registered providers should be able to demonstrate how this return varies across their asset base, e.g. according to stock type or geographical location. Where assets are not apparently achieving the optimum expected return, registered providers should be able to articulate the rationale for continued support of the asset. This may be, for example, that historical covenants are in place, which restrict the sale of properties even where there are high maintenance costs.

### **Bdht Compliance Position - Compliant**

Bdht has four corporate objectives/themes which are reviewed annually at the Board Strategic event in November:

- Governance and Value for Money;
- Service Excellence;
- Housing Solutions, and
- Housing and Communities.

These themes are set out in both the Business Plan and Corporate Plan. Everything bdht does must be aligned to one or more of these themes. The Corporate Plan sets out key actions and outcomes for each theme.

Board approved a revised Value for Money strategy in July 2018. The strategy is cross-cutting, aligned to support delivery of all bdht corporate themes and objectives. The strategy was designed to align with the revised VfM standard and incorporates both RSH and bespoke bdht VfM metrics.

The Housing Solutions theme sets out bdht commitment to delivery of new homes at 100 plus additional units per annum.

The Corporate Plan and Strategic Balanced Scorecard update board members monthly in regard to performance against RSH and bespoke bdht VfM metrics. The Compliance Committee receive an annual VfM compliance position report (latest report in June 2018) which is reported to Board (annually in July) and summarised in bdht's annual financial statements. In September 2018 the RSH published a sector-wide appraisal of delivery of VfM against the Regulator's defined metrics. Bdht performance was reported to Board in December 2019 showing better than average performance in 7 of 9 metrics and best quartile performance in 3 areas.

### Specific Requirements 2.1

Registered providers must demonstrate:

- a. a robust approach to achieving value for money – this must include a robust approach to decision making and a rigorous appraisal of potential options for improving performance
- b. regular and appropriate consideration by the board of potential value for money gains – this must include full consideration of costs and benefits of alternative commercial, organisational and delivery structures
- c. consideration of value for money across their whole business and where they invest in non-social housing activity, they should consider whether this generates returns commensurate to the risk involved and justification where this is not the case
- d. that they have appropriate targets in place for measuring performance in achieving value for money in delivering their strategic objectives, and that they regularly monitor and report their performance against these targets.

### Code of Practice

14. Registered providers must ensure their approach to the management of resources and assets is strategic, comprehensive, and clearly linked to achieving strategic objectives. This includes assurance around the robustness of decision making in this area.

15. Registered providers must ensure that they meet their organisational purposes and objectives (including, where relevant, charitable objectives) when considering the use of resources or assets. Resources and assets should be considered in the widest sense, for example, it must not be limited to use of physical assets and resources, but should include investments into particular services or business streams. It should also include consideration of whether their approach to remuneration and employment costs represent optimal use of resources.
16. An effective approach to value for money requires consideration and action to be taken at both:
  - an operational level – optimising value for money in the activities they carry out
  - a strategic level – ensuring that value for money is considered and addressed in all strategic decisions.
17. Registered providers must ensure that they have an understanding of absolute costs, how these costs compare to other organisations, and how they have changed over time. Registered providers should understand what is driving their costs and make sure that they are getting the desired quality at the lowest price.
18. Robust decision making must include a ‘rigorous appraisal’ of all potential options for improving performance and may include (but is not limited to):
  - cost inputs versus outputs achieved
  - opportunity cost of using assets and resources in their current function
  - comparison against potential alternatives
  - evaluation of implications for delivery of objectives.
19. In some instances the existing commercial, organisational or delivery structures within a registered provider may not be the best vehicle to enable the organisation to achieve its organisational objectives. It is incumbent on boards to actively consider the opportunity costs of their current structures compared to a range of alternatives, and the implications for delivery of objectives and maximising value for money.
20. This could include the potential benefits and limitations of considerations such as (but is not limited to):
  - corporate structure
  - procurement
  - diversification / divestment of business streams
  - investment in non-social housing activity including that undertaken in any unregistered subsidiary
  - partnership arrangements
  - standalone business versus merging with another provider, and
  - geographic areas of operation.
21. Where investment in non-social housing activity is being undertaken either by the registered provider or through an unregistered subsidiary, this activity should generate returns commensurate to the risks involved. Non-social housing-related

activity may bring with it more inherent risk than more traditional social housing activity. Where this is the case, registered providers should fully understand and balance the risks associated with the activity versus the rewards they expect to receive.

## **Bdht Compliance Position - Compliant**

### **Making decisions on the use of resources**

From strategic planning events and discussions at Board meetings, the Board approve responses to specific business challenges. These strategic discussions are aligned to the annual review of the Business Plan and Budget setting process to ensure that business priorities are fully resourced to deliver outcomes set out by the Board.

The Budget setting process includes a rigorous appraisal by the Executive Management Team which includes an assessment of the merits of each budget proposal based on the delivery of corporate priorities within the overall budget agreed by Board.

The Board have set annual revenue cost reduction targets for 2016/17 – 2019/20 to be achieved without an impact on front line service delivery. Revenue cost reductions achieved against target are:

	<b>Target</b>	<b>Achieved</b>
<b>Revenue Cost Savings 2016/17</b>	=>£200,000	£220,000
<b>Revenue Cost Savings 2017/18</b>	=>£300,000	£301,000
<b>Revenue Cost Savings 2018/19</b>	=>£175,000	£181,000

Performance in delivery of cost reduction targets is monitored by Compliance Committee with the latest annual review in April 2019.

### **Consideration by the board of potential value for money gains**

The Business Plan is reviewed annually by Board and includes an approved cost reductions programme based on financial sustainability, including continued compliance with lenders' covenants, delivering strategic objectives, maintaining the Board's Golden Rules and supporting the aspiration of 95% customer satisfaction. The Board ensure strategic objectives are met through the simultaneous review of the Corporate Plan setting out principal actions and outcomes to achieve these corporate objectives. The annual, zero based, budget setting process ensures that actions are funded and outcomes can be delivered efficiently.

Services have been rigorously tested to ensure best value in terms of both cost, performance and quality, with services internalised where appropriate (for example planned works management), full externalisation (communal cleaning) and a mix of internalisation and externalisation (void repairs).

### **Consideration of value for money across their whole business**

Annually the PRC receive a detailed report from Housemark on bdht performance , including cost of delivery, benchmarked against peer organisations. In addition the Compliance Committee receive detailed annual benchmark reports on VfM against the Housemark Sector Scorecard and RSH VfM Metrics. This latter report is also presented in summary to full Board (December 2018).

**Non-social activities** – the only non-social housing investments made by bdht has been the procurement of two market rental schemes in Solihull (March 2017) and Selly Oak (March 2018). These schemes are subject to 12 month performance evaluations, the latest report was made to the Development and New Business Committee in October 2018. Performance in terms of void rent loss, turnover and void costs are reported to board members monthly via the Business Assurance Report.

### **Appropriate targets in place for measuring performance**

In addition to annual reporting set out above, performance against RSH and bespoke bdht metrics are reported to board members monthly through the Business Assurance Report with the Corporate Plan scrutinised quarterly by the PRC and the Strategic Balanced Scorecard monitored by the Compliance Committee.

## **Specific Requirements 2.2**

Registered providers must annually publish evidence in the statutory accounts to enable stakeholders to understand the provider's:

a. performance against its own value for money targets and any metrics set out by the regulator, and how that performance compares to peers

b. measurable plans to address any areas of underperformance, including clearly stating any areas where improvements would not be appropriate and the rationale for this.



### Code of Practice

22. Transparency and accountability help drive improvement in value for money. Transparency requires appropriate performance monitoring and reporting systems, encompassing all elements of the value chain and the economy, efficiency and effectiveness of boards' actions and decisions. Where boards find that expected levels of delivery are not being achieved, they should ensure that they have the systems and skills in place to be able to challenge executives. They should also ensure that robust plans are in place for improvement, or where it would not be appropriate to undertake improvements this should be clearly stated and the rationale for the decision set out.
23. Registered providers must ensure that the reporting undertaken meets the requirements of the Standard, including the requirement to report against the metrics defined by the regulator and to report value for money at a group level, taking into account all areas of the organisational structure. Registered providers should also report on different activities and types of assets that are appropriate to their business priorities. Registered providers who undertake a range of different activities are expected to report on those activities separately to their social housing activity. They should also consider their actual performance, previous year's performance, future forecasts and targets against forecasts in relation to strategic objectives.
24. Registered providers are also free to report any additional measurements that they consider would aid understanding of their performance (e.g. costs and outcomes for supported housing and other specialist areas of the business). Explanation of underlying factors influencing performance must be factual and concise and easily identifiable.
25. Registered providers are required to publish reporting on the above in their statutory accounts in a way that is clear, concise and appropriate to their stakeholders.
26. Registered providers are, in addition to the reporting in the annual accounts, free to report outside of these accounts in any way they see fit if they consider this increases transparency with stakeholders.

### Bdht Compliance Position - Compliant

Bdht financial statements 2017/18 include a value for money section which incorporates bdht's

- benchmarked performance against the RSH VfM metrics,
- performance against bespoke bdht VfM targets, and
- focus on delivering further efficiencies during 2018/19.

### Recommendations for Improvement

None identified

Standard	Rents Standard
<b>1 Required Outcomes</b>	
<b>Registered providers' shall charge rents in accordance with the objectives and framework set out in the government's direction to the regulator of May 2014 and the Rent Standard Guidance.</b>	
<b>2 Specific Requirements</b>	
<b>2.1</b>	<b>Registered providers shall ensure they meet the following requirements, which derive from the government's direction to the regulator of May 2014, and the 'key requirements' set out in the Rent Standard Guidance that accompanies this standard.</b>
<b>Bdht Compliance Position: Compliant</b>	
<p>Rents are reviewed annually by Board in accordance with the Rent Standard Guidance. Rents were last reviewed by Board on the 3rd December 2018 for the period 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020. The Guidance requires that rents are only increased by CPI for the preceding September plus 1%.</p> <p>Subsequent to the publication of the Rent Standard and Rent Standard Guidance in April 2015 the Government's direction to the Regulator has been varied by the Welfare Reform &amp; Work Act 2016 and accompanying regulations. The Board has, therefore, complied with the requirements of the Rent standard, except where these requirements have been varied the Welfare Reform &amp; Work Act 2016 when the Board has ensured compliance with the Act and associated regulations.</p> <p>The Compliance Committee commissioned Beaver &amp; Struthers (Internal Audit) to complete an assurance review of the bdht rent setting process to ensure compliance with these changes to the rent setting regime. The Internal Audit provided Board with a high range "substantial" level of assurance in regard to rent setting 2016/17. The same process in rent setting was adhered to during 2018/19.</p>	

2.2	<p><b>Subject to paragraphs 2.3,2.5 and 2.6, registered providers shall set rents for low cost rental accommodation with a view to achieving the following:</b></p> <p><b>(a) Rents conform with the pattern produced by the rent formula set out in the Rent Guidance (formula rents) with a 5% upward tolerance on individual rents (10% for supported housing and sheltered housing) (“the limit of the rent flexibility level”), but subject to the maximum rent levels specified in that Guidance ('rent caps').</b></p> <p><b>(b) Weekly rent for accommodation increases each year by an amount which is no more than CPI + 1.0%,</b></p> <p><b>(c) Weekly rent for accommodation which is above the limit of the rent flexibility level increases each year by an amount which is less than CPI +1%, until it reaches the limit of the rent flexibility level,</b></p> <p><b>(d) Rent caps increase annually by CPI + 1.5%.</b></p> <p><b>(e) Formula rents increase annually by CPI + 1.0%.</b></p>
<p><b>The Welfare Reform &amp; Work Act 2016</b></p> <p>The Welfare Reform &amp; Work Act 2016 requires registered providers of social housing in England to reduce social housing rents by 1% a year for 4 years from a frozen 2015 to 2016 baseline and to comply with maximum rent requirements for new tenancies.</p> <p>The Social Housing Rents (Exemptions and miscellaneous Provisions) regulations 2016 set out exceptions from rent reduction, additional criteria for granting exemptions and impose alternative requirements on certain categories of housing excepted from the basic provisions.</p> <p>The policy applies from 1 April 2016. In each of 4 ‘relevant years’ registered providers of social housing must reduce the total rent payable by a tenant in year by 1% (though the Act is not prescriptive regarding how this 1% rent reduction is implemented, it could be by a 1% reduction from the beginning of a year, or a larger reduction later in the year). If a tenancy starts or ends during the year, the reduction would be on a pro-rata basis.</p> <p>For social rent properties, the reduction applies to the rent element and not to service charges.</p>	

To calculate the baseline rent, the landlord should take the rate of rent that applied to a tenant on 8 July 2015 and work out the rent that would have been payable if that rate had applied over a 12 month period. The amount payable in the first relevant year is this amount less 1%. In each of the subsequent 3 years, the maximum rent is found by reducing the amount payable in the previous year by 1%.

If the Secretary of State consents a provider may use the rent on a different day to determine the baseline rent (“permitted review day”).

The Secretary of State has issued a [general consent](#) which enables providers who had not implemented their 2015 to 2016 rent increase on 8 July 2015 to use a permitted review day - generally 31 March 2016 except in the case of re-lets of Affordable Rent housing where the permitted review day is the day the new tenancy agreement starts. This is to ensure that all landlords have a 2015 to 2016 baseline for the reductions.

The baseline rent and rents in the 4 relevant years is calculated in the same way as the above, save that it is the rate of rent on the permitted review day (not 8 July 2015) which forms the basis of the calculation.

Schedule 2 to the Act sets out how rents in the first relevant year should be set for new tenants whose tenancies start after the beginning of 8 July. These requirements apply to tenancies of new homes and re-lets to a new tenant (but not the grant of a new tenancy to an existing tenant).

When there is a new tenant of existing social rent properties with a tenancy starting after the beginning of 8 July, the maximum rent in the first relevant year is whichever is the higher of:

- ‘assumed rent rate’, which is based on the rate that the previous tenant was paying on 8 July (or on an alternative permitted review date) or the rate that a previous tenant might have paid on those dates if the property was vacant at the time; a 1% reduction is then applied in each relevant year; or
- ‘social rent rate’, which is calculated by using the formula rent for 2015 to 2016 and applying a 1% reduction in each relevant year

We are aware that there may be existing properties whose rents are already above the formula rent levels. The ‘assumed rent rate’ can be used in these cases and is intended to ensure that providers would not have to reduce rent for a particular property by more than 1% in the first year.

We are also aware that some providers may still have properties whose rents are below formula rents. In these cases, providers will – should they wish - be able to bring the rents up to the ‘social rent rate’ on re-let to a new tenant, similar to re-lets at formula rent under the existing rent policy.

The maximum rent for new social rent properties is the ‘social rent rate’ as set out above.

### **Exceptions from social rent reductions**

#### **Full exceptions**

- low cost home ownership or shared ownership homes
- where the property is subject to a mortgage or other security arrangement, and the mortgagee or other security holder is in possession of the property; a receiver is appointed to receive the rents and profits of that property; or where a person is appointed to administer or sell the property for the purpose of enforcing security; in the unlikely event that a property has to be sold to enforce a mortgage or other security arrangement, it would no longer be subject to the reduction; this is intended to protect the loan security valuation
- properties let on Intermediate rent terms, this will include those provided under government programmes and those provided without public capital subsidy
- specialised supported housing fitting certain criteria – supported housing developed in partnership with councils, local health or social services offering a high level of support for clients, for whom the only alternative options are care homes
- All PFI-funded housing, both HRA and non-HRA
- temporary social housing and short-life leasing schemes for the homeless
- residential care homes or nursing homes
- student accommodation
- legacy social housing under the Housing Act 1996 that is not low cost rental accommodation as defined by section 69 of the Housing and Regeneration Act 2008.

#### **Exceptions with alternative provision**

- properties let to high income social tenants – as currently defined under the [Rent Standard 2015](#), and the [guidance](#) on rents for social housing from April 2015; provisions relating to high income social tenants will be amended when Regulations under the [Housing and Planning Bill](#) come into effect; exceptions also apply to properties previously let to high income social tenants
- Certain Rent Act 1977 tenancies – a landlord does not have to reduce rents if the ‘fair rent’ set by the rent officer is lower than the social rent rate; if that changes the maximum rent would then be the social rent rate
- an exception applies if in the previous year the tenant’s rent was temporarily reduced or waived; that period should be disregarded when calculating the rent due

- a provider may choose to implement the required total reduction more quickly, and where this applies the provider is not required to reduce rent further (though must not increase it)
- supported housing is excepted from Schedule 2 to allow providers to continue to set rents for social rent supported housing at 10% above the social rent rate; see 'rent setting for supported housing section' below:

### **One year exceptions**

These types of accommodation are excepted from the rent reduction requirements during the provider's first relevant year, but alternative provision applies restricting any rent increases to CPI + 1% (0.9%).

- all supported housing (that is not specialised supported housing) provided by local authorities and private registered providers – these include though are not necessarily limited to:
  - sheltered accommodation for older people
  - extra care housing
  - domestic violence refuges and other specialist accommodation based support for domestic violence victims
  - hostels and other supported accommodation for the homeless
  - supported accommodation for people with drug or alcohol problems
  - supported accommodation for people with mental health issues
  - supported accommodation for ex-offenders and people at risk of offending
  - supported accommodation for people with disabilities
  - supported accommodation for people with learning disabilities
  - supported accommodation for young people
  - supported accommodation for teenage parents
  - almshouses
  - community land trusts
  - fully mutual and co-operative housing associations.

### **Rents for supported housing – modifications of section 23 and Part 1 of Schedule 2**

During the first year, providers can continue to set rents as under the previous rent policy. The limit on annual rent increase during 2016 to 2017 will be CPI+1% (CPI was -0.1% as at September 2015, so the limit would be 0.9%).

Section 23 and Part 1 of Schedule 2 are modified to reflect this (the modifications to section 23 are only applicable in the first relevant year, those in respect of Schedule 2 will apply for the 4 relevant years).

Modifications of Schedule 2 also provide that the starting point for calculating the social rent rate is 10% above 2015 to 2016 formula rent .

### **Rents for supported housing from the second relevant year**

The government is in the process of reviewing supported housing and initial findings are expected to be available in Spring. We will use these findings to consider workable and sustainable solutions for the sector.

### **Bdht Compliance Position: Compliant**

Social rents are reviewed annually by Board. Rents were last reviewed by Board on the 3<sup>rd</sup> December 2018 for 2019/20 when a reduction of 1.0% was approved for all bdht social and affordable rents.

2.3

**The requirements of paragraph 2.2 do not apply to accommodation let on Affordable Rent terms. Subject to paragraph 2.6, where accommodation is let on Affordable Rent terms, registered providers shall set rents with a view to achieving the following:**

**(a) Rent for accommodation (inclusive of service charges) is set at a level which is no more than 80% of the estimated market rent for the accommodation (inclusive of service charges), based on a valuation in accordance with a method recognised by the Royal Institution of Chartered Surveyors.**

**(b) Rent for accommodation increases each year by an amount which is no more than CPI + 1.0%.**

**(c) Rent for accommodation is re-set, based on a new valuation, each time the accommodation is:**

**(i) let to a new tenant, or**

(ii) re-let to the same tenant (but where a probationary tenancy comes to an end and the registered provider re-lets the accommodation to the same tenant the provider is not required to re-set the rent).

### The Welfare Reform & Work Act 2016

The maximum rent for an Affordable Rent property, when it is first let to a new tenant, is 80% of the market rate, inclusive of service charges, or the 'social rent rate' (exclusive of service charges), whichever is higher. Providers should then apply the 1% reduction in the following relevant years. The market rent should be based on the valuation methods recognised by the Royal Institution of Chartered Surveyors.

For most Affordable Rent properties, the reduction applies to the total amount, inclusive of service charges. Where the social rent is used as a rent 'floor' for an Affordable Rent property, the reduction applies to the rent element only.

The Secretary of State has issued a [general consent](#) which enables providers who had not implemented their 2015 to 2016 rent increase on 8 July 2015 to use a permitted review day - generally 31 March 2016 except in the case of re-lets of Affordable Rent housing where the permitted review day is the day the new tenancy agreement starts. This is to ensure that all landlords have a 2015 to 2016 baseline for the reductions.

### Bdht Compliance Position: Compliant

Bdht are part of Spectrum and subscribe to an Automated Valuation Model produced by Savill's and accessed via their Rent Portal. This enables bdht to establish the 100% market rent for any individual property. From there we calculate the 80% Affordable Rent making allowance for the service charge. Savill's AVM is recognised by both Homes England and the RICS. bdht uses this methodology for both lets to new tenants and re-lets/renewals to existing tenants.

Affordable rents are reviewed annually by Board. Rents were last reviewed by Board on the 3<sup>rd</sup> December 2018 for 2019/20 when a reduction of 1.0% was approved in accordance with the Welfare Reform & Work Act 2016.

BDHT has established procedures to ensure that rents are re-set in accordance with 2.3 ( c ).



2.4	<b>Affordable Rent terms can only be used in relation to accommodation provided pursuant to a housing supply delivery agreement entered into between a private registered provider and the Homes and Communities Agency (HCA) or the Greater London Authority (GLA).</b>
<b>Bdht Compliance Position: Compliant</b>	
Affordable rents are only charged in accordance with the AHP (Affordable Homes Programme) Framework Delivery agreement between bdht (as part of spectrum) and Homes England which includes Regulatory authorisation for bdht to convert a number of social rent tenancies to affordable rents when they become vacant. The same methodology to calculate the affordable rent is as set out above.	
2.5	<b>The Rent Standard shall not apply to rental accommodation let by registered providers to a social housing tenant household during a financial year where the household income was £60,000 or more in the tax year which ended in the financial year preceding the financial year in which the Rent standard will not apply.</b>
<b>Bdht Compliance Position: Compliant</b>	
2.6	<b>Where the application of the Rent Standard would cause providers to be unable to meet other standards, particularly in respect of financial viability, including the risk that a reduction in overall rental income causes them to risk failing to meet existing commitments such as banking or lending covenants, the regulator may agree to waive specific requirements of the Rent Standard for a period of time.</b>
<b>The Welfare Reform &amp; Work Act 2016</b>	
<b>Exemptions from rent reduction</b>	
A private registered provider may be granted an exemption from the requirements of the Act if the regulator considers that complying with the rent reduction requirements would jeopardise the provider's financial viability or where exempted stock owned by providers in financial difficulties is sold or transferred to another private registered provider.	
<b>Bdht Compliance Position: Compliant</b>	

Board have determined, as part of the Business Planning Review that there is no need to request a waiver as set out at section 2.6 as the business continues to deliver strong financial performance and remains viable despite the rent reduction.

2.7

**Registered providers shall provide clear information to tenants that explains how their rent and any service charge are set, and how they are changed, including reference to the CPI benchmark to which annual changes to rents should be linked (except where rents are controlled under different legislation).**

#### **Bdht Compliance Position: Compliant**

bdht write to all tenants annually giving at least 28 days notice of any change in the rent charged. This letter gives extensive information about the change in rent charged.

#### **Recommendations for Improvement**

None identified